

**FINANCIAL REPORT
BEAVER ISLAND COMMUNITY SCHOOL
June 30, 2008**

**BEAVER ISLAND COMMUNITY SCHOOL
FINANCIAL REPORT
Year Ended June 30, 2008**

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September 25, 2008

Independent Auditors' Report

Superintendent and
Board of Education
Beaver Island Community School
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island Community School, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island Community School, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2008, on our consideration of Beaver Island Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Beaver Island Community School
Beaver Island, Michigan

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Beaver Island Community School's basic financial statements. The accompanying other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schneider & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan



Beaver Island Community School
37895 Kings Highway
Beaver Island MI 49782
phone (231) 448-2744
fax (231) 448-2919
info@beaverisland.k12.mi.us

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Beaver Island Community School's, (the "School's") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the School's nonfiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the School's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc.), which are supported by the School's general revenues (property taxes, unrestricted state aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented; separate from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the Government-wide financial statements.

Beaver Island Community School maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, and Capital Project Fund which are considered major funds. Data from the other five governmental funds are combined into a single, nonmajor governmental funds column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplemental Information section of the report.

Board of Education Members

Barb Schwartzfisher, President; Dawn Marsh, Vice President; Sharon Nix Cole, Treasurer;
Nancy Tritsch, Secretary; Trustees, Brian Cole, Tina Drost and Gail Weede

Superintendent/Principal

Kathleen McNamara
kittym@beaverisland.k12.mi.us

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the District's net assets as of June 30, 2008:

Beaver Island Community School's Net Assets		
June 30, 2008 and 2007		
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 4,102,085	\$ 387,743
Capital assets - net of accum. dep.	<u>1,898,652</u>	<u>1,147,440</u>
Total assets	<u>6,000,737</u>	<u>1,535,183</u>
Liabilities		
Current liabilities	494,001	161,058
Noncurrent liabilities	<u>3,821,610</u>	<u>-</u>
Total liabilities	<u>4,315,611</u>	<u>161,058</u>
Net Assets		
Investment in capital assets, net of related debt	1,241,463	1,147,440
Restricted	131,195	57,414
Unrestricted	<u>312,468</u>	<u>169,271</u>
Total net assets	<u>\$ 1,685,126</u>	<u>\$ 1,374,125</u>

At the end of the fiscal year, Beaver Island Community School is able to report positive balances in all three categories of net assets. The largest portion of the School's net assets is its investment in capital assets including construction in progress; less any related debt used to acquire those assets that are still outstanding. The School uses these capital assets in providing educational services; consequently, these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for debt service and capital projects expenses.

The remaining portion of net assets, unrestricted net assets, may be used at the School's discretion to meet ongoing obligations.

The results for the School as a whole are reported in the Statement of Activities, which is summarized below:

Beaver Island Community School's Change in Net Assets
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue:		
Charges for services	\$ 3,087	\$ 4,240
Grants and contributions	220,613	251,558
General revenue:		
Property taxes	1,524,848	1,463,505
State aid, unrestricted	115,192	135,953
Interest and investment earnings	114,804	10,890
Other	41,845	44,213
	<u>2,020,389</u>	<u>1,910,359</u>
Function/Program Expenses		
Instruction	854,988	900,716
Support services	612,012	621,079
Food services	21,782	24,631
Athletics	36,408	35,100
Community services	5,864	1,911
Interest/fees on long-term debt	123,274	7,567
Depreciation (unallocated)	43,420	41,847
	<u>1,697,748</u>	<u>1,632,851</u>
Change in net assets	311,001	277,508
Net assets - beginning of year	<u>1,374,125</u>	<u>1,096,617</u>
Net assets - end of year	<u><u>\$ 1,685,126</u></u>	<u><u>\$ 1,374,125</u></u>

As reported above, the School recorded \$1,697,748 of expenses. The majority of the School's activities were funded by property taxes, grants and contributions. The state approved funding last year for "Isolated Districts" which represents over 80% of the district's state aid.

The School experienced an increase in net assets of \$311,001. In the fund financial statements debt and capital outlay payments represent expenditures of available spendable resources, however in the government wide statements as noted above they are not current expenses. Depreciation is used to ratably expense these over the estimated time to be benefited. Additionally, the \$3,904,802 bond proceeds are recognized as an other financing source in the fund financial statements and as a liability in the government wide statements. That is why the fund financial statements indicate a

\$3,464,819 increase in fund balances and the government wide statements indicate an increase in net assets of \$311,001.

Fund Financial Analysis

The June 2008 General Fund balance is significantly higher than originally budgeted. The audited fund balance of \$336,983 is approximately 22% of expenditures, but it is not the intent of the district to maintain a fund balance at this level. The district has a goal of maintaining a 15% fund balance over the long term.

General Fund Budgetary Highlights

During the 2007-08 school year, the district kept non-instructional general fund expenditures as low as possible to save money for furnishing, technology and playground improvements for the new school.

At its September 8, 2008 School Board meeting the board of education approved the following resolution:

RESOLVED, that the board of education of the Beaver Island Community School hereby authorizes that up to \$100,000 of the district's audited fund balance be designated for the support of the building project in the areas of furnishings, technology and playground. Such expenditure shall be added to the 2008-2009 general fund budget category 11.1.261.6410, Operations Building Services, Equipment.

Final budgeted revenues were up from the original budgeted revenues. It reflected more local revenue and state revenue. This was due, to the fact there was no state aid bill at adoption, nor had board of review changes been completed for property tax values. Final budgeted expenditures were also higher than originally budgeted and reflected a budget more in accordance with the state mandated chart of accounts.

Final actual revenues were within 1% of final budgeted amounts. Final actual expenditures were within 1% of the original budgeted amounts.

Capital Assets

At June 30, 2008 the School had \$2,324,254 invested in capital assets. The following table summarizes the capital asset activity for the year:

Beaver Island Community Schools Capital Asset Activity Year Ended June 30, 2008

	July 1, 2008	Additions	Disposals	June 30, 2008
Land and improvements	\$ 92,228	\$ -	\$ -	\$ 92,228
Construction in progress	13,768	798,249	(10,380)	801,637
Buildings and improvements	1,516,535	18,403	(155,000)	1,379,938
Vehicles	17,522	-	-	17,522
Equipment	32,929	-	-	32,929
Total capital assets	1,672,982	816,652	(165,380)	2,324,254
Less accum. depreciation	(525,542)	(43,420)	143,360	(425,602)
Net capital assets	<u>\$ 1,147,440</u>	<u>\$ 773,232</u>	<u>\$ (22,020)</u>	<u>\$ 1,898,652</u>

The majority of the capital assets additions pertained to capital projects and sinking fund expenditures, including general building improvements.

Debt Outstanding

Beaver Island Community Schools' Debt Activity Year Ended June 30, 2008

	July 1, 2007	Additions	Reductions	June 30, 2008
Bonds payable	\$ -	\$ 3,950,000	\$ 20,000	\$ 3,930,000
Land contract	-	(45,198)	(1,808)	(43,390)
Early retirement incentives	7,500	-	7,500	-
	<u>\$ 7,500</u>	<u>3,904,802</u>	<u>\$ 25,692</u>	<u>\$ 3,886,610</u>

Economic Factors

While the population of Beaver Island is growing faster than the state, the school enrollment is not growing. The island's population is older than the state average with 55% of the island's population 45 and older. The median income of parents with children is significantly lower than the state average with most families reporting in the low and middle income groups. Most of the children in the district have two parents who work and most parents work in jobs that do not require post secondary education. (Based on summary of work by Bettie Landaue-Menchik, Director, Data Services Unit, K-12 Outreach, MSU).

The district recognizes that the student population is showing a downward trend and that economic development which supports jobs that do require post secondary education is essential to the continued vitality of the district. If current economic and population trends continue, student enrollment will fall below 70.

Financial Contact

The School's financial statements are designed to present users with a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Beaver Island Community School.

BEAVER ISLAND COMMUNITY SCHOOL
Statement of Net Assets
June 30, 2008

<u>Assets</u>	<u>Governmental Activities</u>
Current Assets	
Cash	\$ 4,062,022
Accounts receivable	1,689
Due from other governmental units	29,879
Prepaid expenses	8,495
Total current assets	<u>4,102,085</u>
Noncurrent Assets	
Capital assets, non-depreciable	893,865
Capital assets, depreciable	1,430,389
Less: accumulated depreciation	<u>(425,602)</u>
Total noncurrent assets	<u>1,898,652</u>
Total assets	<u><u>\$ 6,000,737</u></u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	\$ 12,334
Construction contracts payable	256,230
Payroll deductions and withholdings	925
Accrued expenses	34,363
Accrued interest payable	25,920
Salaries payable	81,729
Deferred revenue	17,500
Bonds payable, due within one year	<u>65,000</u>
Total current liabilities	494,001
Noncurrent Liabilities, Net of Current Portion	
Bonds payable, net of discount	<u>3,821,610</u>
Total liabilities	<u>4,315,611</u>
Net Assets	
Investment in capital assets, net of related debt	1,241,463
Restricted for debt service	110,070
Restricted for capital projects	21,125
Unrestricted	<u>312,468</u>
Total net assets	<u>1,685,126</u>
Total liabilities and net assets	<u><u>\$ 6,000,737</u></u>

BEAVER ISLAND COMMUNITY SCHOOL
Statement of Activities
Year Ended June 30, 2008

		Program Revenues		Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Functions/Programs				
Governmental Activities:				
Instruction	\$ 854,988	\$ -	\$ 94,969	\$ (760,019)
Support services	612,012	-	111,079	(500,933)
Athletics	36,408	-	-	(36,408)
Food services	21,782	3,087	14,565	(4,130)
Community services	5,864	-	-	(5,864)
Interest/fees on long-term debt	123,274	-	-	(123,274)
Depreciation (unallocated)	43,420	-	-	(43,420)
Total governmental activities	<u>\$ 1,697,748</u>	<u>\$ 3,087</u>	<u>\$ 220,613</u>	<u>(1,474,048)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,308,811
Property taxes, levied for debt services				214,196
Property taxes, levied for capital expenditures				1,841
State aid, unrestricted				115,192
Interest and investment earnings				114,804
Loss on disposal of assets				(11,640)
Other				41,845
Total general revenues				<u>1,785,049</u>
Change in net assets				311,001
Net assets - beginning of year				<u>1,374,125</u>
Net assets - end of year				<u>\$ 1,685,126</u>

BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Balance Sheet
June 30, 2008

	General	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash	\$ 434,364	\$ 3,494,248	\$ 133,410	\$ 4,062,022
Accounts receivable	1,689	-	-	1,689
Due from other funds	10	-	-	10
Due from other governmental units	29,642	-	237	29,879
Prepaid expenses	8,495	-	-	8,495
Total assets	<u>\$ 474,200</u>	<u>\$ 3,494,248</u>	<u>\$ 133,647</u>	<u>\$ 4,102,095</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 2,700	\$ 8,597	\$ 1,037	\$ 12,334
Construction contracts payable	-	256,230	-	256,230
Due to other funds	-	-	10	10
Payroll deductions and withholdings	925	-	-	925
Accrued expenses	34,363	-	-	34,363
Salaries payable	81,729	-	-	81,729
Deferred revenue	17,500	-	-	17,500
Total liabilities	<u>137,217</u>	<u>264,827</u>	<u>1,047</u>	<u>403,091</u>
Fund Balances:				
Reserved for prepaid expenses	8,495	-	-	8,495
Reserved for debt service	-	-	110,070	110,070
Reserved for capital improvements	-	3,229,421	21,125	3,250,546
Unreserved:				
Undesignated	328,488	-	1,405	329,893
Total fund balances	<u>336,983</u>	<u>3,229,421</u>	<u>132,600</u>	<u>3,699,004</u>
Total liabilities and fund balances	<u>\$ 474,200</u>	<u>\$ 3,494,248</u>	<u>\$ 133,647</u>	<u>\$ 4,102,095</u>

BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 3,699,004
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds
balance sheet.

Cost of capital assets	2,324,254
Accumulated depreciation	(425,602)

Interest is accrued on outstanding bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due	(25,920)
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Long-term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the governmental
funds.

Bonds payable	(3,930,000)
Discount on bonds payable	<u>43,390</u>

Net Assets of Governmental Activities	<u><u>\$ 1,685,126</u></u>
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BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2008

	General	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
Revenues				
Local sources	\$ 1,356,466	\$ 101,581	\$ 221,724	\$ 1,679,771
State sources	140,802	-	1,437	142,239
Federal sources	24,105	-	13,128	37,233
Interdistrict and other sources	161,146	-	-	161,146
	<u>1,682,519</u>	<u>101,581</u>	<u>236,289</u>	<u>2,020,389</u>
Total revenues	<u>1,682,519</u>	<u>101,581</u>	<u>236,289</u>	<u>2,020,389</u>
Expenditures				
Current:				
Instruction	862,488	-	-	862,488
Support services	612,012	-	-	612,012
Athletics	-	-	36,408	36,408
Food service	-	-	21,782	21,782
Community services	5,864	-	-	5,864
Debt service:				
Principal	-	-	20,000	20,000
Interest	-	-	93,348	93,348
Other	-	-	2,198	2,198
Capital outlay	-	776,962	29,310	806,272
	<u>1,480,364</u>	<u>776,962</u>	<u>203,046</u>	<u>2,460,372</u>
Total expenditures	<u>1,480,364</u>	<u>776,962</u>	<u>203,046</u>	<u>2,460,372</u>
Excess (deficiency) of revenues over expenditures	<u>202,155</u>	<u>(675,381)</u>	<u>33,243</u>	<u>(439,983)</u>
Other financing sources (uses)				
General obligation bonds issued	-	3,950,000	-	3,950,000
Discount on bonds issued	-	(45,198)	-	(45,198)
Operating transfers in	-	-	41,756	41,756
Operating transfers out	(41,756)	-	-	(41,756)
	<u>(41,756)</u>	<u>3,904,802</u>	<u>41,756</u>	<u>3,904,802</u>
Total other financing sources (uses)	<u>(41,756)</u>	<u>3,904,802</u>	<u>41,756</u>	<u>3,904,802</u>
Net change in fund balances	160,399	3,229,421	74,999	3,464,819
Fund balances - beginning of year	176,584	-	57,601	234,185
Fund balances - end of year	<u>\$ 336,983</u>	<u>\$ 3,229,421</u>	<u>\$ 132,600</u>	<u>\$ 3,699,004</u>

BEAVER ISLAND COMMUNITY SCHOOL
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds **\$ 3,464,819**

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities, the cost of those assets is
allocated over their estimated useful lives as depreciation expense:

Capital outlay	806,272
Depreciation expense	(43,420)

The loss on the disposition of capital assets is not reported in
the governmental funds. (11,640)

Repayment of long-term debt is an expenditure in the governmental
funds, but the repayments reduce long-term liabilities in the
statement of net assets:

Bonds	20,000
Amortization of bond discount	(1,808)
Early retirement incentives	7,500

Bond proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the statement
of net assets, however, issuing debt increases long-term liabilities and
does not affect the statement of activities.

Bond proceeds	(3,950,000)
Discount on bond proceeds	45,198

Accrued interest expense on long-term debt is reported in the
government-wide statement of activities, but does not require the
use of current financial resources. Therefore, accrued interest expense
is not reported as expenditures in government funds. (25,920)

Change in Net Assets of Governmental Activities	\$ 311,001
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BEAVER ISLAND COMMUNITY SCHOOL
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2008

	Student Activities Agency Fund
Assets	
Cash	\$ 33,960
Liabilities	
Accounts payable	\$ 657
Due to student groups	33,303
	\$ 33,960

BEAVER ISLAND COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Beaver Island Community School (the "School District") operates under a Board-Superintendent form of government and provides education services to its residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the School District:

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the School District and included in the School District's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The School District has no component units.

Basic Financial Statements – Overview

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The School District's major fund, as described below, is the General Fund. Non-major funds by category are summarized into a single column.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the School District.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Governmental Funds - Continued

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds – The School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Cafeteria and Athletic Fund.

Debt Service Funds – The Debt Retirement Funds are used to record tax and interest revenue and the payment of interest, principal and other expenditures on long-term bonded debt. The Debt Service Funds maintained by the School District is the General Obligation Fund.

Capital Project Funds – The Capital Project Funds are used to record bond proceeds, tax revenues, or other revenue, and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. These funds are kept open until the purpose for which they were created has been accomplished.

Sinking Fund – The Sinking Fund was approved by the voters for a period of five years, fiscal 2003 through 2007 to levy an amount not to exceed 1 mill on all property for constructing, remodeling and repairing school buildings and developing and improving sites. For this fund, the School District has complied with the applicable provision of § 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Capital Project Fund – During the fiscal year ending June 30, 2008, the School District established the Capital Projects Fund with proceeds from a bond approved by the voters and issued in September 2007. The bonds were issued for the purpose of erecting, furnishing and equipping an addition to, and partially remodeling, furnishing, equipping and re-equipping the school; acquiring, installing and equipping technology for the addition and school; constructing, equipping and relocating a playground and play field; and developing and improving the site. For this capital project, the School District has complied with the applicable provisions of § 1351a of the Revised School Code.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore are not available to support School District programs. Since these funds cannot be used to address activities or obligations of the School District, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

Student Activities Agency Fund – The School District presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the School District for the students.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles, are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the School District as assets that are purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years
Vehicles	7 years

Comparative Data

Comparative total data for the prior year is not included in the School District's financial statements.

NOTE 2: BUDGETING/COMPLIANCE

The School District is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for these funds. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. All annual appropriations lapse at year-end.

The presentation of budgetary information is required for the General Fund and all major Special Revenue Funds. (The School District does not have any major Special Revenue Funds). In the required supplemental information section, the School District's actual and budgeted expenditures for the General Fund are presented.

NOTE 3: DEPOSITS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 3: DEPOSITS – CONTINUED

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$4,095,983 and the bank balance was \$4,174,727. Of the bank balance, \$129,779 was covered by federal depository insurance. The remaining \$4,044,948 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31.

Property taxes are recognized as revenue in the fiscal year they are levied. The Michigan School Accounting Manual requires property taxes receivable be written off in the current year if not received within 60 days of the end of the previous year. This applies to both the government-wide (full accrual) and the fund (modified accrual) financial statements. There is no significant departure from the full accrual basis of accounting using this method.

The 2007 State taxable valuation of non-homestead property as of March 24, 2008 for Beaver Island Community School totaled \$83,111,651, on which taxes levied consisted of 15.7908 mills for operating purposes. The total taxable valuation of the School District was \$107,882,568, on which taxes levied consisted of 2.0 mills for debt retirement. These amounts are recognized in the respective General and Debt Service funds.

Classification of assessed property between homestead vs. non-homestead is subject to change. In addition, Michigan Tax Tribunal and Board of Review changes throughout the year affect the total taxable valuation.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 5: CAPITAL ASSETS

Capital asset activity for the School District's governmental activities was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2008</u>
Assets not being depreciated:				
Land and improvements	\$ 92,228	\$ -	\$ -	\$ 92,228
Construction in progress	<u>13,768</u>	<u>798,249</u>	<u>(10,380)</u>	<u>801,637</u>
Subtotal	<u>105,996</u>	<u>798,249</u>	<u>(10,380)</u>	<u>893,865</u>
Capital assets being depreciated:				
Buildings and improvements	1,516,535	18,403	(155,000)	1,379,938
Vehicles	17,522	-	-	17,522
Equipment	32,929	-	-	32,929
Accumulated depreciation:				
Buildings and improvements	<u>(525,542)</u>	<u>(43,420)</u>	<u>143,360</u>	<u>(425,602)</u>
Net capital assets being depreciated	<u>1,041,444</u>	<u>(25,017)</u>	<u>(11,640)</u>	<u>1,004,787</u>
Governmental activities net capital assets	<u>\$ 1,147,440</u>	<u>\$ 773,232</u>	<u>\$ (22,020)</u>	<u>\$ 1,898,652</u>
Governmental activities depreciation expense was charged as follows:				
Unallocated	<u>\$ 43,420</u>			

NOTE 6: CONSTRUCTION COMMITMENTS

The school district has an active construction project at year-end. The projects include:

	<u>Project Estimates</u>	<u>Expended to June 30, 2008</u>	<u>Committed</u>
School addition and renovation	<u>\$ 4,112,493</u>	<u>\$ 801,637</u>	<u>\$ 3,249,242</u>

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 7: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund balances within the school district are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 10	\$ -
Cafeteria Fund	<u>-</u>	<u>10</u>
	<u>\$ 10</u>	<u>\$ 10</u>

The interfund balances are for Cafeteria Fund expenses paid from the General Fund.

Interfund transfers consist of the following:

The General Fund made transfers in the amounts of \$5,348 to the Cafeteria Fund and \$36,408 to the Athletic Fund. The General Fund makes transfers on a yearly basis to support these funds.

NOTE 8: DEFERRED REVENUE

Deferred revenue in the government-wide and the fund financial statements consists of categorical and other grant monies received but not yet earned at year end. Deferred revenues for the year ended June 30, 2008 are comprised of the following:

<u>Grant</u>	
Summer School	\$ 2,000
Playground equipment	<u>15,500</u>
	<u>\$ 17,500</u>

NOTE 9: SHORT-TERM DEBT – STATE AID NOTES

The School issues Tax Anticipation notes in advance of property tax receipts, depositing the proceeds in the General Fund. This note was necessary because property tax payments were not received before December of the school year.

Short-term debt activity for the year ended June 30, 2008, excluding interest expense of \$9,125 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax Anticipation Note	<u>\$ -</u>	<u>\$ 450,000</u>	<u>\$ 450,000</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 10: LONG-TERM DEBT

The following is a summary of the School District's governmental activities long-term debt transactions for the year ended June 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government Activities					
Bonds and notes payable:					
General obligation debt	\$ -	\$ 3,950,000	\$ 20,000	\$ 3,930,000	\$ 65,000
Discount on bonds payable	-	(45,198)	(1,808)	(43,390)	-
Other liabilities:					
Early retirement incentives	7,500	-	7,500	-	-
Total governmental activities long-term liabilities	<u>\$ 7,500</u>	<u>\$ 3,904,802</u>	<u>\$ 25,692</u>	<u>\$ 3,886,610</u>	<u>\$ 65,000</u>

Long-term debt payable at June 30, 2008, is comprised of the following individual instrument:

2007 School Building and Site Bonds due in annual installments through May 1, 2032; interest at 3.75% - 4.15% due semi-annually, net of discount.	<u>\$3,886,610</u>
--	--------------------

Debt service requirements at June 30, 2008 were as follows:

Year ended June 30	Principal	Interest	Total
2009	\$ 65,000	\$ 155,520	\$ 220,520
2010	80,000	153,083	233,083
2011	90,000	150,083	240,083
2012	105,000	146,708	251,708
2013	110,000	142,770	252,770
2014 - 2018	635,000	648,038	1,283,038
2019 - 2023	805,000	515,343	1,320,343
2024 - 2028	1,025,000	339,598	1,364,598
2029 - 2032	1,015,000	108,108	1,123,108
Total	<u>\$ 3,930,000</u>	<u>\$ 2,359,251</u>	<u>\$ 6,289,251</u>

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 11: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS

The Beaver Island Community School contributes to the Michigan Public School Employees Retirement System (MPERS), a cost sharing, multiple employers, state wide public employee retirement plan governed by the State of Michigan and created in 1915. MPERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits to the State's public school employees. MPERS now operates under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, MI 48909-7526 or by calling (517) 322-6278.

Prior to January 1, 1990, MPERS provided a choice of two retirement plans, the Basic Plan, which required no employee contribution and the Member Investment Plan (MIP). For members hired on January 1, 1990 or after, membership in MIP is mandatory. MIP members are required to contribute 3 to 4.3 percent of their annual covered salary and Beaver Island Community School is required to contribute at an actuarially determined rate. The current rate is 16.72% of annual covered payroll, of which approximately 6.55% is for other post employment benefits (see below). The contribution requirements of plan members and Beaver Island Community School are established and may be amended by the MPERS Board.

The School District's contribution to MPERS for the years ending June 30, 2008, 2007 and 2006 were \$130,474, \$132,565 and \$119,812 respectively, equal to the required contributions for each year.

Other post employment benefits

Also under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for health, dental and vision coverages.

The number of plan participants and other relevant financial information consisted of the following at June 30, 2007, the date of the latest actuarial valuation.

Eligible retired participants	162,844
Participants receiving benefits:	
Health	121,804
Dental/Vision	129,771
Expenses for the year	\$653,572,464
Payroll contribution rate	6.55%

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 12: RESERVES AND DESIGNATIONS OF FUND BALANCES

Major Governmental Funds

General Fund – The General Fund's reserved fund balance includes amounts for prepaid expenses.

Nonmajor Governmental Funds

Capital Project Funds – The Capital Project Funds' have reserved fund balances for the acquisition and/or construction of major capital assets.

Debt Service Funds – The Debt Service Funds' reserved fund balances represents resources legally restricted for the payment of principal and interest amounts maturing in future years.

NOTE 13: RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District also belongs to the SEG Self-Insured Workers' Disability Compensation Fund, a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the state. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

REQUIRED SUPPLEMENTAL INFORMATION

BEAVER ISLAND COMMUNITY SCHOOL
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Local sources	\$ 1,342,025	\$ 1,359,545	\$ 1,356,466	\$ (3,079)
State sources	139,876	139,693	140,802	1,109
Federal sources	21,800	24,177	24,105	(72)
Interdistrict and other sources	186,979	161,504	161,146	(358)
Total revenues	1,690,680	1,684,919	1,682,519	(2,400)
Expenditures				
Current:				
Instruction:				
Basic programs	834,589	809,199	753,843	(55,356)
Added needs	121,279	112,003	108,645	(3,358)
Support services:				
Pupil	64,072	66,311	59,831	(6,480)
General administration	19,000	18,750	14,747	(4,003)
School administration	260,303	258,266	252,336	(5,930)
Business services	43,200	46,228	40,430	(5,798)
Operation and maintenance	218,803	197,224	174,150	(23,074)
Other support services	60,670	73,297	70,518	(2,779)
Community services	13,414	8,038	5,864	(2,174)
Capital outlay	-	-	-	-
Total expenditures	1,635,330	1,589,316	1,480,364	(108,952)
Excess (deficiency) of revenues over expenditures	55,350	95,603	202,155	106,552
Other financing sources (uses)				
Operating transfers out	(37,000)	(44,900)	(41,756)	(3,144)
Net change in fund balance	18,350	50,703	160,399	109,696
Fund balance - beginning of year	176,584	176,584	176,584	-
Fund balance - end of year	\$ 194,934	\$ 227,287	\$ 336,983	\$ 109,696

OTHER SUPPLEMENTAL INFORMATION

BEAVER ISLAND COMMUNITY SCHOOL
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue Funds		Debt Service Funds		Sinking Fund	Total
	Cafeteria	Athletic	1992 General Obligation	2007 General Obligation		
<u>Assets</u>						
Cash	\$ 1,178	\$ -	\$ 7,855	\$ 102,215	\$ 22,162	\$ 133,410
Due from other governmental units	237	-	-	-	-	237
Total assets	<u>\$ 1,415</u>	<u>\$ -</u>	<u>\$ 7,855</u>	<u>\$ 102,215</u>	<u>\$ 22,162</u>	<u>\$ 133,647</u>
<u>Liabilities and Fund Balance</u>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,037	\$ 1,037
Due to other funds	10	-	-	-	-	10
Total liabilities	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,037</u>	<u>1,047</u>
Fund Balances:						
Reserved for debt service	-	-	7,855	102,215	-	110,070
Reserved for capital improvements	-	-	-	-	21,125	21,125
Unreserved:						
Undesignated	<u>1,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,405</u>
Total fund balances	<u>1,405</u>	<u>-</u>	<u>7,855</u>	<u>102,215</u>	<u>21,125</u>	<u>132,600</u>
Total liabilities and fund balances	<u>\$ 1,415</u>	<u>\$ -</u>	<u>\$ 7,855</u>	<u>\$ 102,215</u>	<u>\$ 22,162</u>	<u>\$ 133,647</u>

BEAVER ISLAND COMMUNITY SCHOOL
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Special Revenue Funds		Debt Service Funds		Sinking Fund	Total
	Cafeteria	Athletic	1992 General Obligation	2007 General Obligation		
Revenues						
Local sources	\$ 3,087	\$ -	\$ 170	\$ 215,583	\$ 2,884	\$ 221,724
State sources	1,437	-	-	-	-	1,437
Federal sources	13,128	-	-	-	-	13,128
Total revenues	17,652	-	170	215,583	2,884	236,289
Expenditures						
Current:						
Athletic	-	36,408	-	-	-	36,408
Food service	21,782	-	-	-	-	21,782
Debt service:						
Principal	-	-	-	20,000	-	20,000
Interest	-	-	-	93,348	-	93,348
Other	-	-	240	20	1,938	2,198
Capital outlay	-	-	-	-	29,310	29,310
Total expenditures	21,782	36,408	240	113,368	31,248	203,046
Excess (deficiency) of revenues over expenditures	(4,130)	(36,408)	(70)	102,215	(28,364)	33,243
Other financing sources (uses)						
Operating transfers in	5,348	36,408	-	-	-	41,756
Total other financing sources (uses)	5,348	36,408	-	-	-	41,756
Net change in fund balances	1,218	-	(70)	102,215	(28,364)	74,999
Fund balances - beginning of year	187	-	7,925	-	49,489	57,601
Fund balances - end of year	\$ 1,405	\$ -	\$ 7,855	\$ 102,215	\$ 21,125	\$ 132,600

BEAVER ISLAND COMMUNITY SCHOOL
Other Supplemental Information
Statement of Receipts and Disbursements
Fiduciary Fund
Year Ended June 30, 2008

	Balance June 30, 2007	2007-2008		Balance June 30, 2008
		Receipts	Disbursements	
Youth Consortium	\$ 10,206	\$ 2,319	\$ 9,190	\$ 3,335
Islander Booster Club	3,659	15,495	5,370	13,784
Board Account	(959)	203	77	(833)
Gullahorn Scholarship	2,700	400	2,600	500
5th/6th Grade	2,641	7,040	4,999	4,682
7th/8th Grade	(7,234)	33,820	18,116	8,470
Junior Class	622	2,590	2,512	700
Senior Class	1,534	1,640	2,766	408
Lockwood Memorial	940	-	-	940
SADD	228	-	-	228
National Honor Society	1	199	71	129
Student Council	72	330	132	270
Schoolyard Garden Fund	600	-	-	600
Yearbook	(363)	1,548	1,095	90
	<u>\$ 14,647</u>	<u>\$ 65,584</u>	<u>\$ 46,928</u>	<u>\$ 33,303</u>
Total	<u>\$ 14,647</u>	<u>\$ 65,584</u>	<u>\$ 46,928</u>	<u>\$ 33,303</u>

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



September 25, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Superintendent and Board of Education
Beaver Island Community School
Beaver Island, Michigan

We have audited the general purpose financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Beaver Island Community School as of and for the year ended June 30, 2008 which collectively comprise Beaver Island Community School's basic financial statements and have issued our report thereon dated September 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Beaver Island Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Beaver Island Community School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

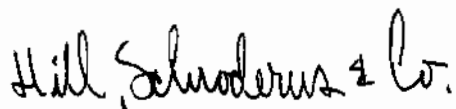
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify and deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Beaver Island Community School
Beaver Island, Michigan

Compliance and other matters

As part of obtaining reasonable assurance about whether Beaver Island Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Hill, Schroderus & Co." in a cursive script.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO THE BEAVER ISLAND COMMUNITY SCHOOL FOR THE YEAR ENDED JUNE 30, 2008

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE BEAVER ISLAND COMMUNITY
SCHOOL FOR THE YEAR ENDED JUNE 30, 2008